



Investment Office

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400 FAX (916) 795-2842

May 21, 2007

Via Overnight Courier

Mr. John V. Faraci
Chairman and Chief Executive Officer
International Paper Company
6400 Poplar Avenue
Memphis, TN 38197

Dear Mr. Faraci:

I am writing to you to express the concern by California Public Employees' Retirement System (CalPERS) with the 25% and 38% withhold votes received by directors Martha Brooks and John Townsend, respectively, at International Paper Company's 2007 Annual Meeting. Our research indicates that in 2006, only 3% of the 3,380 directors up for election from S&P 500 companies received a withhold vote of greater than 25%, and only 1% received a withhold vote of greater than 35%. We also found that in 2006, only 20 companies in the S&P 500 had two or more directors receive a withhold vote of 25% or greater. These withhold vote levels (in year 2006) for S&P 500 companies were roughly the same as year 2005.

We hope that the board and directors Brooks and Townsend understand that this high level of withhold votes is a statistically significant message from the owners of the company, that disregard for the will of the company's shareowners, poor long-term stock price performance, numerous failed restructurings and inferior corporate governance practices will no longer be tolerated.

It is concerning that the company interpreted such an embarrassing outcome for the board and directors Brooks and Townsend as a "very positive outcome." This position is a reminder for the company's shareowners of how low the bar for achievement has been set at International Paper Company. Given the fact that the company's stock price was \$44.35 five years ago and closed on May 18, 2007 at \$39.12 while materially underperforming its peers during the same time period is indicative of the reasons why shareowners are expressing their dissatisfaction with the board's performance. The board should expect further evidence of shareowner disapproval if their oversight of our company fails to create a sustainable improvement in shareowner value, correct for a lack of responsiveness to the demands of shareowners and eliminate the perpetuation of corporate governance practices that entrench the board, shield them from direct accountability to shareowners and destroys shareowner value.

**California Public Employees' Retirement System
Lincoln Plaza East - 400 Q Street, Suite E4800 - Sacramento, CA 95814**

John Faraci
International Paper Company
5/21/07
Page 2

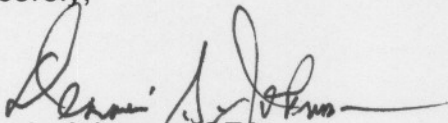
Therefore, it is recommended that the board of directors recognize the demands of the company's owners by doing the following:

- Declassify the board of directors, consistent with a 2006 shareowner proposal which received 79% of "for" votes.
- Conduct a skill sets assessment of the board and provide a written report to us explaining how directors Brooks and Townsend are the best qualified to contribute to the creation of shareowner value at International Paper Company.
- Consult your largest shareowners for director nominees to be presented for election at the 2008 Annual Meeting.

International Paper Company has a long history of underperformance, board entrenchment and ignoring the will of its shareowners. The board needs to put behind it, these matters that detract from its ability to represent and create value for shareowners while being held accountable for their success in doing so.

Thank you for your consideration on this issue. We request that you present this letter on our behalf to your board at the next scheduled meeting, and provide us with feedback from their discussion. If you need additional clarification please do not hesitate to contact me at (916) 795-2731.

Sincerely,



Dennis Johnson, CFA
Senior Portfolio Manager
Corporate Governance

cc: International Paper Company Board of Directors
Fred Buenrostro, Chief Executive Officer – CalPERS
Russell Read, Chief Investment Officer – CalPERS
Christianna Wood, Senior Investment Officer – CalPERS
File